

ORIGINAL

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**TDS TELECOM®**

*Government and Regulatory Affairs*

7 February, 2001

**Ex Parte**

Magalie Roman Salas, Esq.  
Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street SW  
Washington, DC 20554

**RECEIVED EX PARTE OR LATE FILED**

**FEB - 8 2001**

**FCC MAIL ROOM**

**Re: CC Docket 96-45, In the Matter of Rural Task Force (RTF) Recommendation  
and the Multi - Association Group Recommendation**


Dear Ms. Salas:

On February 7, 2001, Bob DeBroux, Director – Federal Affairs for TDS TELECOM, gave a presentation to the Maine Public Utilities Commission. Attending the presentation were various staff members and commissioners, as well as Federal – State Universal Service Joint Board member Joel Shifman.

For your information, Mr. DeBroux's presentation is attached.

Enclosed are three copies of this notice in accordance with sections 1.1206(a)(1) and 1.1206(a)(2) of the Commission's rules. Please date stamp and return the provided copy in the enclosed self-addressed, stamped envelope.

Respectfully submitted,

  
Nicole K. Mauritz  
Sr. Administrator – Federal Affairs

cc: Joel Shifman  
Robert DeBroux

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# RTF and MAG: What's the Point?

Maine Public Utilities Commission  
February 7, 2001

Bob DeBroux  
Director - Federal Affairs



## Outline

- Background
- RTF Recommendations
- MAG Plan
- Compatibility of Plans
- Conclusion

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## Background

- RTF (*Rural Task Force*)
  - Created by Federal-State Joint Board on Universal Service in Sep 1997 to review rural company universal service issues
  - Members appointed in Jul 1998 from industry, consumer advocates and regulators
- MAG (*Multi Association Group*)
  - Plan created in response to Nov 1998 FCC challenge
  - Attempt to regulate small and mid-size companies “holistically,” and provide regulatory stability

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## MAG Members

- **OPASTCO**
  - Organization for the Promotion and Advancement of Small Telecommunications Companies
- **NTCA**
  - National Telephone Cooperative Association
- **NRTA**
  - National Rural Telecom Association
- **USTA**
  - United States Telecom Association

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## RTF Members

**Bill Gillis** - Commissioner & RTF Chair  
Washington Utilities and Transportation  
Commission

**Carol Ann Bischoff** - VP & Gen Council  
CompTel

**David Conn** - VP & Assoc Gen Council  
McLeodUSA, Inc

**Gene DeJordy** - Exec Director  
Western Wireless

**Billy Jack Gregg** - Director  
West Virginia Consumer Advocate Division

**Evelyn Jerden** - Director  
Western New Mexico Telephone Co

**Joel Lubin** - VP  
AT&T

**Joan Mandeville** - VP  
Blackfoot Telephone Cooperative

**Chris McLean** - Administrator  
Rural Utilities Service

**Jack Rhyner** - President and CEO  
Telalaska

**Robert Schoonmaker** - VP  
GVNW Consulting, Inc

**David Sharp** - Senior VP  
Virgin Islands Telephone Company

**Stephen Ward** - Public Advocate  
Maine Public Advocate Office

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## RTF Timeline

- Sep 29, 2000 - Consensus Recommendations presented to Federal-State Joint Board (JB) on Universal Service for immediate implementation
- Dec 22, 2000 - JB recommends implementation for 5 year period with caveats
- Jan 10, 2001 - JB recommendations put out for comment by FCC
  - Comments due 30 days after publication in Federal Register; replies 15 days later
- Jul 1, 2001 - Implementation requested

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## MAG Timeline

- Nov 1998 - FCC chair challenges industry to develop “holistic plan”
- Oct 20, 2000 - MAG plan filed with FCC
- Jan 5, 2001 - MAG plan put out for comment by FCC
  - Comments due 30 days after publication in Federal Register; replies 15 days later
  - Many issues raised: Optionality; productivity factor; MAG process; USF size; fit with RTF; SLC disparities . . .
- Jul 1, 2001 - Implementation requested

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## RTF & MAG Why Now?

- Open dockets on access reform, ROR, universal service at FCC create regulatory uncertainty
- Federal Universal Service “interim” plan expired
- Current rules and pricing not in line with competitive entry
- Disincentives to infrastructure upgrades exist
- Create viable incentive plan for non-CALLs participants
- Fulfill promises of Telecom Act

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## RTF Recommendations

### Joint Board Long Term Issues

- Fund size and state “winners” vs. “losers”
- Targeting in current support
  - DEM weighting by ILEC size
  - “Modified Embedded Cost” ignores transport and design choice
- Lack of support for largest ILECs’ rural areas -- VT & ME vs. WI & IA
- Support for unserved areas
- Support for multiple lines

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## RTF Recommendations

### Joint Board Interim Compromise

- Send RTF plan to FCC as 5-year plan
- Full Joint Board and FCC rulemaking during the 5 year period
- Seek more RTF implementation detail on caps, catastrophe support, safety net windfall, other issues
- State Joint Board members urged MAG referral

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## RTF Recommendations

### Cost Basis - HCPM

- HCPM use rejected due to variance between proxy predictions and actual data
  - line counts differed from actual lines served
  - route miles varied significantly from actual
  - wire center area significantly underestimated
  - switching investment significantly underestimated
- Using FCC's algorithm would cut rural funding from \$1.553 B to \$451 M
- HCPM would not produce "sufficient" funding

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## RTF Recommendations

### Cost Basis

- Modify current caps and limitations on universal service high cost loop fund to achieve sufficiency
  - Re-base fund to uncapped calendar year 2000 and increased annually by a rural growth factor (RGF = 5.755%)
  - Adjust corporate operations expense limitation, subject to overall re-based cap (together these increase fund by \$118.5 M)
  - Add "safety valve mechanism" for acquired or transferred exchanges where purchaser upgrades the network with "meaningful new investments" limited to 5% of overall fund
  - Add "safety net additive" for study areas with increase in TPIS growth greater than 14% over previous year
- LTS and LSS not affected

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## RTF Recommendations

### Disaggregation

- Flexible disaggregation scheme to accommodate RLEC diversity
- Three path approach
  - Path 1: no disaggregation for four years
  - Path 2: filed and approved plan, with no constraints
  - Path 3: LECs self-certify to disaggregate into two cost zones per wire center, and maintain for four years
    - Must file rationale behind disaggregation
    - Subject to complaint from interested parties
- Must file within 270 days of effective rules

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## RTF Recommendations

### Portability

- CETC receives per line amount received by ILEC
  - Support frozen per line once CETC is providing service in ILEC area
  - Support grows annually by RGF, unless constrained by new cap (CETC amount not under cap)
  - CETC would receive support as disaggregated for ILEC
- Lag for receipt by CETC shortened
- Maintain support of all lines, not primary
- FCC should address stranded cost issue

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## RTF Recommendations Advanced Services

- Adopt a “no barriers to advanced services” policy
- Review the definition of supported services and increase USF cap when definition changes
- Modify current caps and limitations on universal service to encourage investment and support embedded costs with sufficient funding
- Provide access to information services that is reasonably comparable to urban areas

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## RTF Recommendations High Cost Fund III

- Remove implicit support in interstate access
  - Identify appropriate unit prices for access
  - Fund the difference between these prices and current prices with uncapped HCFIII
- Funding is portable, and disaggregated
- HCFIII should reduce pressure on geographic toll rate averaging and produce lower consumer rates and greater choices

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# MAG Plan

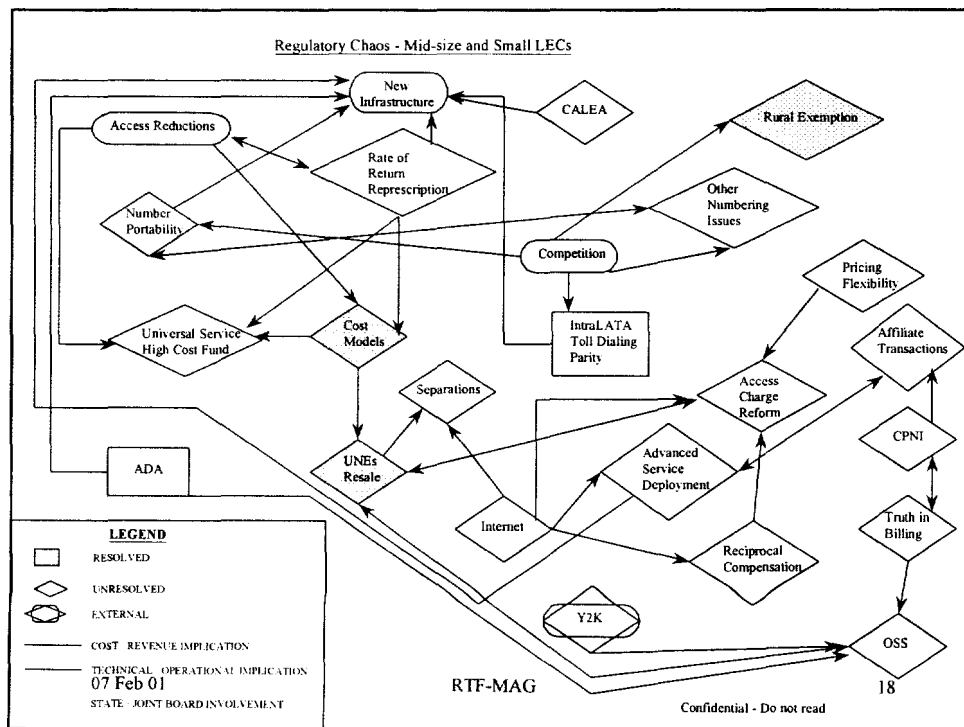
## Scope

- Access Reform (CC 98-77)
- Universal Service Reform (CC 96-45)
- Regulatory Reform
  - Incentive Regulation
  - ROR Represcription (CC 98-166)
  - Separations Reform
- Five-year plan

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## Multi-Association Group Plan

- Filed on October 20, 2000 at the FCC
- Purposes
  - Rural/urban rate and service comparability
  - Fix regulatory uncertainty -- access charge reform, universal service reform, incentive regulation, separations freeze
  - Preserve pooling
  - Accommodates diversity among rural ILECs

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## MAG Plan

- Two path approach - Interstate only
  - Path A: Transition to incentive regulation
  - Path B: Remain on rate of return with ability to move to Path A during five-year transition period
- Plan compatible with CALLS
- Same policy direction as RTF
- Same incentives as Price Caps, different plan

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## Plan Structure

### Path A

- Five-year transition from rate-of-return to incentive-based regulation for study areas that elect Path A at the outset
- Incentive plan based on revenues-per-line
- Universal Service
  - Remove caps on support for Path A and Path B
  - New explicit support within the pool for Path A

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## Pooling Option - Path A

### Rate and USF Components

- Carrier Access Rate (CAR)
  - Translation of today's per minute access rates into composite average (existing rate elements remain)
- Subscriber Line Charge (SLC)
- Rate Averaging Support (RAS)
  - Universal service support to preserve and enhance toll rate averaging in rural areas

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## Access Rates - Path A

### CAR

- CAR reduced by amount similar to price cap companies' reductions
  - Transition from 3.94 - 4.3 cents to 1.6 cents for Path A LECs
  - Post-CALLS disparity reduced from 3.8 cents to 1.1 cents per minute for Path A

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## Access Rates - Path A

### Per Minute Comparison

	Price Cap	ROR	Disparity
<b>Pre-CALLS</b> (before 7/1/00)	\$0.0120	\$0.043	\$0.031
<b>CALLS</b> (after 7/1/00)	\$0.0055	\$0.043	\$0.038
<b>MAG</b> (after 7/1/01?)	\$0.0055	\$0.016	\$0.011

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## Access Rates - Path A & B Subscriber Line Charge

- SLC transitions consistent with CALLS
  - SLCs set at PC companies' caps (as long as reasonably comparable to their actual SLCs)
- SLC residence & single-line business rates
  - July 1, 2001 \$5.00
  - July 1, 2002 \$6.00
  - July 1, 2003 \$6.50
- Multi-Line business 3-year transition to \$9.20

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## New USF Support - Path A RAS

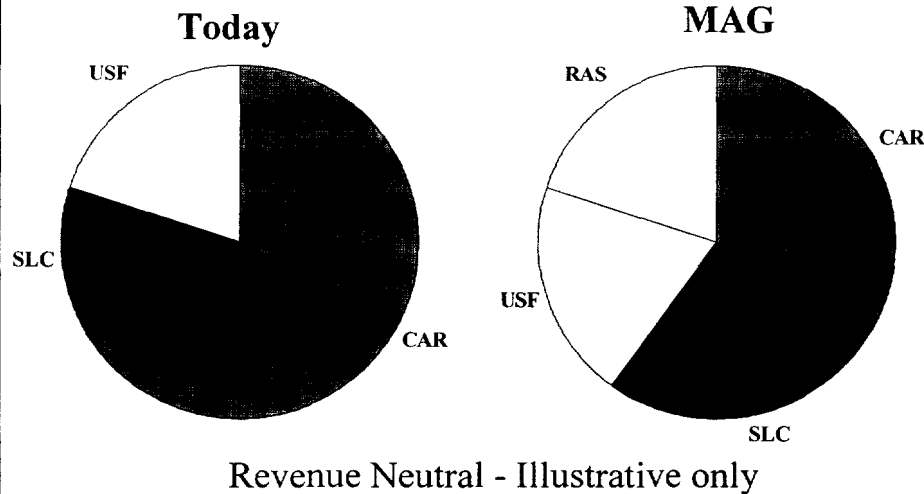
- RAS is explicit universal service support to recover the difference between the settlement paid by the pool and the revenue derived from SLC, LTS, LSS & prescribed CAR
- Collected as other federal universal service fund components are collected
- Portable like other universal service fund components

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## Interstate Revenue



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## Pooling Option - Path A Settlements

- Two settlement options to deal with rural companies' varying cost characteristics and needs
  - Rate of return environment (Cost or Average Schedule) transition for five years
  - Incentive-based environment (mandatory after year five)
- Pool ROR remains at 11.25% for Paths A and B
- Separations factors frozen per Joint Board recommendation

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## Pooling Option - Path A Incentive Regulation

- Move from settlement based on cost studies or average schedules to frozen “revenue per line” (RPL) in real dollars (i.e. inflation adjusted)
- Frozen RPL provides incentives for increasing efficiency

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## Pooling Option - Path A Low End Adjustment

- Low End Adjustment (LEA) as safety net
  - For LECs with five or fewer study areas on incentive regulation whose return is lower than 50 basis points below current authorized rate of return
  - for LECs with more than five study areas on incentive regulation whose return is lower than 100 basis points below current authorized rate of return

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## Pooling Option - Path A Post-Transition Period

- All study areas in Path A subject to incentive regulation
- Low End Adjustment remains available

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## Non-Pooling Option - Path A

- Rates established using base year interstate RPL
- Rates can be deaveraged on revenue neutral basis and contract pricing allowed
- New services at market rates under streamlined rules
- Low End Adjustment available
- No RAS

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## Pooling Option - Path B

- Remain on current ROR regulation, with following changes
  - Access reform
    - SLC increases to CALLS caps
    - Decreases in per-minute access rates
- Universal Service reform
  - Existing caps removed
  - No RAS available

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## Universal Service

- Enhance Lifeline per CALLS plan
- Remove existing caps
- Cost study areas receive universal service under today's rules
- Support (except RAS) frozen on per-line basis under Path A incentive regulation and adjusted for inflation
- Disaggregated -- up to three zones per wire center -- and made portable
- RAS is explicit residual (and portable) support for Path A pooling LECs

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## Consumer Benefits of MAG Plan

- Rate comparability for SLCs
- Lower, geographically averaged toll rates
- Optional Calling Plans available everywhere
- Removal of cap on universal service encourages investment
- Promotes investment by ending regulatory uncertainty

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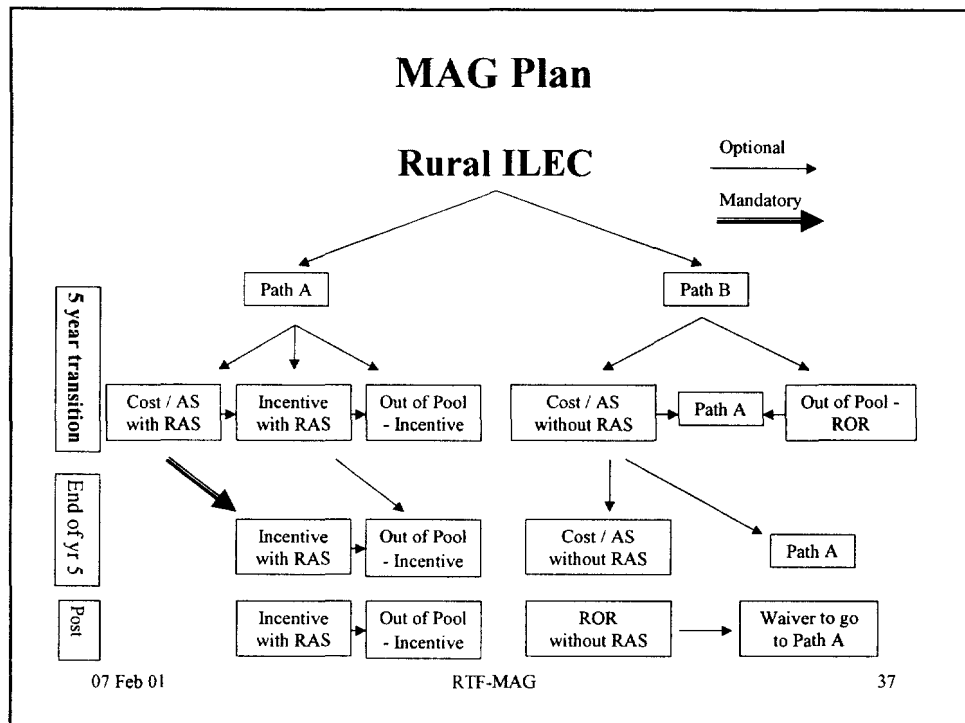
## Economic Benefits of MAG Plan

- Reduces implicit support in access
- Provides explicit and sufficient USF funding
- Provides incentive regulation plan tailored to rural LECs
- Lessens regulatory burdens and costs
- Encourages competition in rural areas

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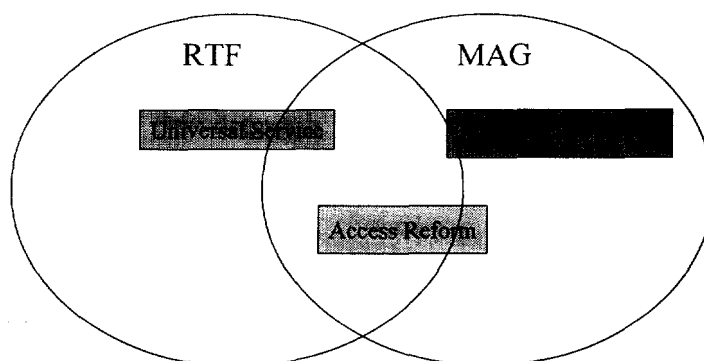
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Interstate Regulatory Reform	
MAG	RTF
<ul style="list-style-type: none"> <li>• 5 year plan</li> <li>• Filed requested to be implemented July 1, 2001</li> <li>• Relies on current costs and universal service algorithms <ul style="list-style-type: none"> <li>– No proxy for USF</li> </ul> </li> <li>• Uncaps HCL Fund</li> <li>• Disaggregates USF into 3 zones</li> <li>• RAS to lower per minute rates</li> <li>• Frozen per line support when study area moves to incentive</li> <li>• Promotes infrastructure investment</li> </ul>	<ul style="list-style-type: none"> <li>• 5 year plan</li> <li>• Immediate implementation requested</li> <li>• Relies on current costs and universal service algorithms <ul style="list-style-type: none"> <li>– No proxy for USF</li> </ul> </li> <li>• Restores \$118 M of \$132 M cap</li> <li>• Disaggregates USF into 2 zones</li> <li>• HCF III to lower per minute rates</li> <li>• Frozen per line support once ETC is in market</li> <li>• Promotes infrastructure investment</li> </ul>
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## Compatibility of RTF & MAG



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## MAG & RTF What IS the Point?

- Rural ILECs need regulatory reform and a stable environment
- CLECs need stable rules to plan which markets to enter
- Consumers need access to advance service and comparable rates
- Resolve overlapping issues, implement and move forward

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